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Monthly Letter on Economic Conditions Government Finance

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General Business Conditions

THE business men who are looking for light on the prospect a few months ahead have found little in the news during March to help them come to firm conclusions. They are watching retail sales to see whether the huge volume of goods now pouring out of the factories is being consumed, and the reports have not been too encouraging. However, the figures are difficult to interpret because of unseasonable weather. Indications are that Easter sales of department stores, while larger in dollars, will represent a smaller quantity of goods than a year ago. Whether this means that people cannot or will not buy the current output at the prices asked, as many fear, or whether sales will move ahead when warm days come along, remains to be seen. It should be noted that the Easter business of a year ago was the approximate peak of the rush to buy apparel and other soft goods, and comparisons this year therefore are with extraordinarily large totals.

CONTENTS

Federal Reserve figures indicate that retailers' inventories are still rising and they are buying cautiously to minimize their risk in case of sales resistance. This is sound policy and it helps keep markets in order. Some curtailment of production in shoes, soft woolen goods, and women's apparel has been reported. But in the general situation these are minor exceptions. Overall industrial production holds at peak levels. The operating rate of the steel industry has increased to above 97 per cent of capacity and automobile output also has reached a new postwar high.

If up to the minute figures could be had they would almost certainly show that wage and salary payments are still expanding. The farmer has had during the first quarter a sharply higher income than a year ago and the shareholders of many corporations are doing better. Thus dollar buying power is still growing. But the increase is accompanied by higher prices and is not uniformly distributed. The real purchasing power of the groups whose incomes have not kept up with the price rise has been cut.

Price Rise Checked

From the viewpoint of checking price inflation and improving the balance in price relationships, developments have been more favorable than in February. The seven weeks' rise in basic commodity prices has halted, at least temporarily, and there are encouraging indications that more and more people are impressed by the necessity of preventing another turn of the wage-price spiral. During the month the International Harvester Co., despite a huge volume of unfilled orders and insistent demands for its products, cut prices an average of 23.8 per cent on 163 items. Mr. Fowler McCormick, President of the company, said:

> We believe there is nothing more important to this country than to lower the prices of the goods that people buy . . . Our employes have had substantial increases in pay . . . Stockholders have recently had an increase

in the dividend rate . . . We are now making these price reductions for the benefit of the third group, our customers.

The Carnegie-Illinois Steel Co. revised the "extra" charges on some steel products, which reduced prices $1 to $4 a ton. There have been other instances of price cuts. They have not stopped the indexes of prices of industrial products from edging upward, but they have retarded the rise; and in addition they set an example which may be more widely followed as productivity increases and profit margins permit.

The outcome of the wage negotiations between the tire manufacturers and the unions is likewise encouraging. Although the union leaders had demanded 26c an hour increase they settled for 11½c, and the companies announced that the increase would be absorbed without advancing tire prices. This also is a contribution to stability and an example which can hardly fail to influence the wage negotiations now going on in the steel, automobile, and other industries.

It is true that unless the output per man-hour of the rubber workers improves they will have gained purchasing power only at the expense of profit margins, and that in many cases such a settlement of wage-price questions is not possible. It may be said, too, that since there was room to raise wages there was room to cut prices, and that the workers would have been more farsighted if they had allowed some of the margin to be used for the benefit of the people who buy the product. But the fact that another turn of the wage-price spiral has been avoided is all to the good, and a desirable and influential precedent has been set.

The Food Price Situation

Much of the emphasis in current discussion of prices and price policy is placed on industrial products. In the cost of living index, however, the largest single component is foodstuffs (34 per cent in the 1935-39 base period; 40 per cent now). The largest percentage rise in any component since last summer has been also in foodstuffs (25 per cent). Studies based on Department of Commerce and Department of Agriculture figures show that expenditures on food now constitute the highest proportion of the disposable income of the country that has ever been known, which leaves a smaller percentage for other goods.

In press conferences March 26 both President Truman and Secretary Snyder expressed their concern over rising prices, and according to the New York Times the President said that "business men should see the handwriting on the wall." Many other people, including business men, share this concern. However, the figures above given indicate that if the cost of living is brought down to any considerable extent, foods will have to lead the way.

Government policy supports food prices rather than the reverse. There has been a spectacular rise in wheat attributable to government buying. We believe the country approves the program of foreign relief, and it could not have been carried out without heavy wheat purchases. Nevertheless, the manner of the buying has been disturbing. The Government tried to get more wheat out of the Southwest than was available; it cornered the market and squeezed not only speculative shorts, but merchants and millers who had made contracts for future delivery. Eventually the over-buying was recognized, merchants who were committed to deliver wheat in the Southwest by April 10 were allowed to substitute Northern wheat for later delivery, and the market reacted. But this was after the price had risen above $3. Now trade reports say Secretary Anderson is being urged to buy in the Northwest, which if done will repeat the squeeze. Bread prices have gone up along with wheat.

The Government is supporting prices of potatoes, eggs, milk products, turkeys, and has indicated that butter may be supported during the flush production season. Support prices for potatoes, eggs and turkeys are fixed by law; for milk products the price has been set by the Department of Agriculture at a price above the minimum required by law. Free prices for these foods would exert a downward pull on living costs, acting against the inflation of bread prices.

A policy which on the one hand tries to suppress inflation, and on the other lifts or supports prices which are very influential in the cost of living and therefore upon wage rates, is self-contradictory. Legal and moral obligations are involved in the support program, and to reconcile a policy looking toward food price reductions with these obligations is at the moment not an easy task. But the disturbing rise of food prices during the past few weeks indicates, in the eyes of many people, that the task should be undertaken. One obvious way to ease the burden on the urban people who are paying the high food prices would be to reduce the payments to farmers and expenditures on their behalf in the budget, and pass on the saving in tax reduction. The agricultural items in the budget for fiscal 1948 total $1,381 millions. Estimated expenditures in fiscal 1947 come to $1,117 millions.

Outlook for Exports

The President's message to Congress March 12, making a declaration of foreign policy which is epochal in its importance and urging expenditures of $400 million over the next fifteen months to aid Greece and Turkey, has intensified interest in the export prospect and in the influence of exports on the domestic situation. The heart of the President's statement is in the following sentence: "I believe that it must be the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures." The possible implications of this policy are so broad that they cannot be assessed in advance of events, and any effort to translate them into a schedule of foreign loans or expenditures would be wildly speculative. The one thing certain is that they indicate expansion of loans and gifts beyond the limits earlier intended.

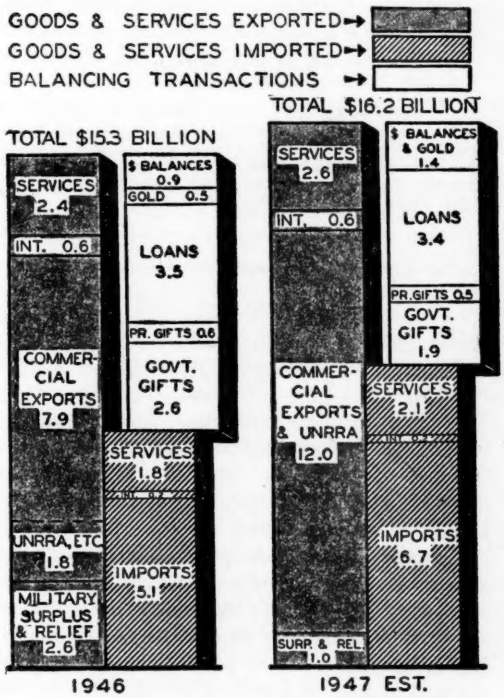
Also within a few weeks we have had the President's request for the appropriation of $350 million to finance relief in certain countries, and Mr. Hoover's report on relief requirements in Germany and Austria. All these in conjunction have raised expectations as to the volume of exports and the resulting inflationary pressure on prices. At the same time, however, reports of tightening import controls and diminishing dollar resources in many countries have prompted questions of the opposite kind, creating doubts as to whether the unprecedented foreign demand for American goods can continue.

The outlook for exports concerns everyone. Directly and indirectly, exports last year were a very large factor in the business of this country. Foreign demand for industrial products intensified the pressure on our industries. Exports of farm products, which exceeded $3 billion, were a great influence lifting farm prices and farm income, and prosperity in the farming sections was one of the supports of domestic trade. Everyone should know that without the dollars accumulated by foreign countries during the war and the loans and gifts made since the end of the war our export surplus in 1946 could not have been financed. When credits contract and dollar balances are drawn down the export balance will have to shrink, and our foreign sales will be limited more nearly to what foreign customers can pay for out of sales to us.

Commerce Department's Figures

Thanks to loans and gifts, the net draft on foreign holdings of gold and dollars in 1946 was moderate despite our huge exports. This is revealed by the preliminary balance sheet of our international payments recently published by the Department of Commerce. Even more reassuring is the Department's forecast for 1947, made early in March. It anticipates that we shall sell abroad more goods and services than in 1946, and again without exhausting foreign gold and dollar resources.

How our major international transactions during 1946 compare with anticipated transactions in 1947 is shown in the accompanying chart based on Department of Commerce data. The chart shows also how our huge export surplus was financed in 1946 and how it is expected to be paid for in 1947.



Balance of Payments in 1946

Although our outright gifts have tapered down, we continue to contribute on an enormous scale, in terms of diversion of goods and services abroad, to world relief and rehabilitation. In 1946 the United States supplied goods and services to foreign countries in the amount of $15.3 billion, which was about $1 billion less than in 1945 and only about $2.5 billion less than in 1944, the peak of Lend-Lease. Private or "commercial" exports rose to nearly $8 billion, from $3.9 billion in 1945. They would have been still larger if more goods could have been supplied. Government transfers of goods (UNRRA, relief, reimbursable Lend-Lease, etc.)

were less than half as large as combined Lend-Lease and relief exports in 1945, but still aggregated nearly $4 billion. Services rendered by us came to $3 billion.

On the side of our money payments to foreigners, imports into this country totaled $5.1 billion and services bought totaled $2 billions. With our purchases paying for only about one-half of our sales, the balance due to us amounted to about $8.2 billion. Nearly 40 per cent or $3.2 billion of this huge credit balance, however, required no outlay of dollars on the part of foreigners. It was covered by government and private contributions. The remainder was financed by credits extended, and by using about $1.4 billion of foreign gold and dollar resources. The breakdown of contributions and loans follows:

Financing the 1946 Credit Balance
(In Millions of Dollars)

Contributions		Loans and Credits	
UNRRA	$1,500	Export-Import Bank	$1,000
"Straight" Lend-Lease	100	Lend-Lease credits	900
Army relief	600	Surplus prop. credits	800
Other Gov. (net)	400	British loan	600
Private (net)	600	Others (net)	200
Total	$3,200	Total	$3,500

Source: Export-Import Bank and Dept. of Commerce.

Estimates for 1947

The general pattern of 1947 transactions as anticipated by the Department of Commerce resembles greatly the 1946 balance of payments. The basic assumption of the estimate evidently is that, as Secretary Harriman recently said, "Foreign demand for American goods is tremendous and limited only by the amount of the United States productive surplus and the ability of other countries to pay." The Department expects that our imports will reach $6.7 billion, compared with $5.1 billion in 1946, and that our exports (including some UNRRA) will reach $12 billion against $9.7 billion. It expects that we will supply $3.2 billion of services and receive $2.3 billion, an excess of nearly $1 billion, or nearly as much as in 1946. Many have expected that in 1947 foreign shipping would have a larger place in our trade and that American tourist expenditures would rise. The Department evidently does not expect such changes to be substantial. In prewar years debits and credits in the service account about offset each other.

According to these estimates the excess of exports of goods and services in 1947 will be $7.2 billion, or about one billion less than in 1946. About one-fourth of this balance will require no outlay of dollars. The remainder, to be covered by loans and/or foreign gold or dollars, is expected to be financed about as in 1946. Loans are counted on for $3.4 billion; according to the Export-Import Bank, about $3 billion will be provided by U. S. Government credits. The Bank anticipates that its disbursements will continue at about the same rate as in 1946, about $1 billion a year. The drawing on the British line of credit has been at the rate of over $100 million a month, and with free convertibility of the pound scheduled to be restored, the drain is expected to increase rather than diminish. The accompanying table summarizes American governmental credits authorized and utilized, showing that more than $5½ billion was still unused December 31, 1946.

Status of U. S. Credits
(In Millions of Dollars)

	Credits Authorized	Utilized by Dec. '46	Unutilized as of Dec. '46
Export-Import Bank credits	$2,300	$1,100	$1,200
Surplus property credits	1,100	800	300
Lend-Lease "pipeline" credits	1,400	1,200	200
Ship sales credits	200		
Loan to Great Britain	3,750	600	3,150†
Philippine credits			
Individual war damage claims‡	400		
Restoration of public property‡	125		
R.F.C. loan	75		
Total	$9,350	$3,700	$5,650

†Another $500 million has been withdrawn since. ‡Authorized but not appropriated.

Source: Export-Import Bank (Third Semi annual Report), Survey of Current Business, January 1947 and Foreign Commerce Weekly, February 1, 1947.

Other Dollar Resources

In addition to these credits there are other large potential supplies of dollars. The Export-Import Bank had over $900 million of uncommitted funds at the end of the year, and some private credits are to be expected. The International Bank and the Monetary Fund will have available in gold and dollars some $4 billion, exclusive of sales of the Bank's debentures in American markets.

Finally, there is newly mined gold, the sale of which could yield at least half a billion dollars, and as a last resort the gold reserves of foreign countries. The Department anticipates that if the newly mined gold comes to us, drawing on existing foreign gold and dollar resources should be less than one billion dollars. This would be a moderate draft, all things considered.

Not everyone may agree with the detailed estimates of the Department. The fact emerges, however, that means are still available to finance an export surplus of goods and services in the neighborhood of $7 billion in 1947.

This is without taking account of new loans and expenditures which may be made under the policies enunciated by the President on March 12. But the calculation does include the $350

million of relief appropriations asked earlier by the President. This appropriation was included in the budget submitted in January, — $100 million for fiscal 1947 and $250 million for fiscal 1948. Likewise it should be understood that the Hoover recommendations on relief for Germany and Austria do not require an upward revision of previous estimates for this purpose included in the budget. In fact, Mr. Hoover suggested eight practical ways in which costs might be lessened, he emphasized the responsibility of other nations to share the relief burden, and he recommended that advances take the form of loans rather than grants.

Distribution of Dollar Holdings

Thus on the basis of overall supplies of dollars another big export year seems assured. This does not signify, however, that all countries are well-supplied. While total foreign-owned bank balances at last report (Oct. 31, 1946) exceeded $6 billions, balances of certain countries have been declining appreciably.

The simple truth is that gold and dollars are not distributed in accordance with the postwar requirements of goods from this country and even the extension of credits has not remedied the situation. Dollars owned by the Continent are strictly husbanded for essentials; in the sterling area, despite some liberalization of wartime controls, careful allocation of dollars is continued. Some Central American Republics and Chile, Peru, Ecuador and Bolivia have found themselves lately with insufficient dollars. Other Latin American Republics, while meeting the large local demand for American products, are nevertheless watching their dollars to assure that essential imports have priority. Even Canada and Sweden, with substantial reserves of either gold or dollars, have recently shown apprehension about the rate at which their dollars are being used up.

Dollar scarcities in 1947, however, apply to specific countries. Evidently the problem will not become general within the coming year, but only because of our loans and gifts.

Implications for Domestic Policy

With the huge loans and gifts already made and authorized, it is a sobering thought that the United States is now called upon to make further contributions of unknown magnitude. We do not believe the country shrinks from providing food for the starving, aid for rehabilitation or support for the foreign policy. But whether the dangers that lie in the continuous unbalance of our trade are fully understood, and whether the implications for our domestic policies are fully accepted, are other questions.

We have to realize that an export surplus financed by loans and gifts of such size exerts an inflationary effect upon our price level. It accentuates our boom and it adds to our instability. For no country is rich enough to continue such contributions indefinitely, and when they stop there will be danger of reaction and depression. Other countries too have a great stake in the stability of this country, and one of the common fears they express is that the United States will experience a postwar depression during which our imports of their products will fall away and they will be prostrated.

Since this danger is unavoidable while we extend large-scale relief and aid, what are the implications for domestic policy? In the main they are the same as those which would confront an individual called upon to support relatives upon whom poverty and illness had fallen. If more has to be spent for that purpose, less should be spent elsewhere. If an inflationary influence — represented by goods leaving the country without a compensating quantity coming in — is to be loosed, means to reduce the aggregate of inflationary pressures in other ways should be sought. In concrete terms, the policy of reducing government expenditures, in order to get an adequate surplus for both the debt reduction and the tax reduction which are desirable, needs to be pushed with even more vigor than before March 12. If luxuries cannot be afforded, we should do without them.

In the second place, a great responsibility attaches to the people, both here and abroad, who have the disposal of the funds we provide. The inflationary influence of the spending is compounded if the goods bought are those which are acutely scarce here rather than those which are relatively plentiful, and to the greatest possible extent purchases should be in the second category. Where substitution is impracticable, we must do without, and since we reject rationing and similar restrictions we must exercise economy and self-restraint, both as a nation and as individuals.

What was said earlier in this Letter about wheat buying policies, and the support of farm prices that want to go down, while wheat is being forced up, is a case in point. The policy unsettles further the relation between wages and living costs and accentuates the "boom-bust" influences. If the program of aid, by excessive purchases of any one commodity or bad handling, causes another wave of inflation in this country, the rest of the world eventually will suffer with us.

If funds provided by this country are used for the export of consumer goods other than the most necessitous they will represent not relief but an effort to export our standard of living, which in the end must prove impossible. For the standard of living of each country ultimately is governed by its own production and can be raised effectively only by lifting its own production. It follows that, apart from necessitous relief, the funds should be used for equipment and goods to rehabilitate and expand productive facilities. Countries which have their own dollars, as well as those that are borrowing, serve their own interests by following such a policy. We must not hold out cruel and illusory hopes about lifting and supporting the standard of living in the countries we are aiding, for inevitably disappointment would ensue and the reaction would be against us.

The Long-Term Problem

These are some of the general considerations which ought to be in people's minds with respect to our foreign economic program and our export position. The figures that have been presented show that our trade is unbalanced. The excess of exports is an inflationary influence. Our aim should be to hold the excess to the lowest figure consistent with the necessities of the situation.

We do not want to repeat the mistakes made after the First World War. Then, as now, a large part of our exports was financed through U. S. Government loans and expenditures abroad and by private loans and short-term credits. Later, private long-term investments augmented the supply of dollars. A result was to stimulate the flow of exports far above the level warranted by the supply of dollars provided from current transactions. When, during the early '30s, our lending abruptly stopped and the supply of dollars contracted, the foreign exchanges were thrown into disorder. A sharp drop in exports aggravated our developing domestic difficulties and a sharp drop in imports aggravated the world's difficulties.

The nature of the long-term problem and its solution was summarized by Mr. R. C. Leffingwell, Undersecretary of the Treasury in the first World War, in a recent address:

> We should always be capable of producing an exportable surplus of food and manufactures beyond our own needs, and the old world will want it. Can the old world pay for it? If we cannot sell our exportable surplus we shall have depressions and unemployment, and the old world will be in want of the goods we want to sell. We must make it possible for the old world to get them.
>
> The long-term answer must lie in our accepting more imports of goods, and of shipping, banking and insurance services, and in our travellers' expenditures abroad and immigrants' remittances to foreign countries.

In other words trade, in the broad sense of exchange of both goods and services, in the long run must settle itself.

The Budgetary Outlook

While Congress has been wrestling with 1948 budget problems, actual budget prospects for the current fiscal year ending next June 30 have been undergoing decided improvement. Revenues, thanks to rising wage, salary, and dividend payments, substantially full employment, and absence of major strikes, have been running well ahead of expectations. For the period January 1-March 26, which includes the greater part of the heavy March collections, net receipts were 6 per cent ahead of the corresponding period a year ago, compared with budget assumptions that receipts for the six months January-June would fall 5 per cent below a year ago.

Expenditures, on the other hand, are running behind estimates, the disbursements for January through March 26 falling 14 per cent below last year, compared with budget calculations of a 6 per cent decline for the full six months' period.

Thus, instead of a deficit for the 1947 fiscal year of $2.3 billion, as projected only last January, it has now been officially confirmed that a surplus is to be expected, the first in seventeen years. For the fiscal year through March 26, with a little over three months to go, the surplus amounted to $3 billion.

Progress in Cutting Expenditures

Although fortuitous factors have played some part in the reduced expenditures, it seems fair to conclude that widespread demands for an end of extravagance in government are already bearing fruit. Some departments, including the military services, are understood to have gone ahead with economies on their own initiative. Savings from a "merger" of the Army and Navy and from a reorganization of the Executive Departments still lie in the future, though Congressional committees are holding hearings on them. Right now action on appropriations legislation will be most decisive in determining how much retrenchment we get.

The first of the major appropriations bills for fiscal 1948, approving $12,388 million for the Treasury and Postoffice Departments, was passed by the House of Representatives March 11, with no dissenting votes recorded. The appropriations for the Postoffice Department were cut $14 mil-

lion or about 1 per cent below the President's request. The total approved for the Treasury Department, including permanent appropriations for interest on the public debt and old age and unemployment trust funds, was $10,857 million, or $883 million (7½ per cent) less than the President's figure.

This $883 million cut is accounted for chiefly by the fact that the Appropriations Committee estimate of tax and miscellaneous other refunds is $803 million under the figure submitted by the President in January. Only time will tell which estimate is closer to the mark.

Of more tangible significance are the $80 million cuts affecting the regular operating staffs and activities of the bureaus which come under the Treasury Department. The following comparative summary is drawn from the Appropriations Committee report:

Appropriations for Treasury Department Regular Operations
(In Thousands of Dollars)

	Appropriation for 1947*	Requested by President for 1948	Approved by House for 1948
Office of Secretary of Treasury	$ 2,409†	$ 2,973†	$ 2,317†
Bureau of Accounts	8,468	14,115	12,255
Bureau of Public Dept	66,075	69,446	65,913
Office of Treasurer of the U. S.	5,075	5,641	5,040
Coast Guard	116,226	132,904	97,000
Customs Service	29,430	36,100	32,595
Internal Revenue Bureau	184,707	208,004	178,004
Bureau of Narcotics	1,304	1,510	1,434
Secret Service	3,112	3,465	2,708
Bureau of Engraving & Printing	11,756	13,506	12,005
Bureau of the Mint	6,265	7,187	6,468
Bureau of Federal Supply	1,377	1,820	1,480
Total for Treasury Department Regular Operations	$436,204	$496,671	$417,219

*The report gives a "pending deficiency estimate, including cost of increased compensation," of $41 million for 1947. This covers Treasury functions as a whole. The table above is uniformly based upon the regular annual appropriations, actual and proposed, as detailed in the report.

† Excludes cost of handling penalty mail (an intra-governmental item charged to this office) and the appropriation (for 1947 only) of the wartime Foreign Funds Control.

For the regular operations taken as a whole, the House approved appropriations of $417 million, a 16 per cent cut from the amount requested by the President and a 4½ per cent cut from the original amount appropriated for 1947.

It is to be noted that the biggest cut is made in funds for the Coast Guard, where the House vetoed a proposed 14 per cent increase over 1947 and determined upon a 17 per cent reduction instead. The reasoning upon which this decision was made is presented in the Committee report:

Giving due consideration to the fact that the Coast Guard today performs many duties additional to those undertaken 10 years ago, the fact remains that, even making allowance for these added burdens, the appropriations have grown by leaps and bounds and the day has arrived for a reevaluation by Congress of the role that the Coast Guard should play in the matter of providing services.

The Committee is firmly convinced that it was never the intention of Congress that the Coast Guard should become a "blue water" organization extending its functions far beyond the coasts of continental United States. It was never in contemplation of Congress that as a peacetime agency, the Coast Guard should assume the functions of a miniature navy. The very name of the organization bears witness to this view. If it is a coast guard, then a coast guard it should be and unless Congress should determine to broaden its scope and change its name, then a coast guard it should remain.

The grandiose designs of the Coast Guard are reflected in the fact that the organization itself requested the Treasury Department to approve an aggregate of $232,000,000 for operations in 1948.

$178 Million for Bureau of Internal Revenue

The second biggest cut was taken from the biggest single item – appropriations for the Bureau of Internal Revenue – where the House again vetoed a proposed increase, of 13 per cent over 1947, and instead decided upon a 3½ per cent cut. The amount approved – $178 million, or three times the figure for 1939 – draws attention to the vast army of employees that has been required, by the magnification of the scale of government, simply to collect taxes.

The Customs Service, to which public attention has been drawn by reports of wholesale dismissal of customs personnel because of budget "slashes," is allowed $3 million *more* than the 1947 appropriation, a 10½ per cent increase instead of the 22½ per cent increase that had been proposed.

The Committee report points out how abandonment of some "desirable but not necessary" new projects would facilitate use of the increase in appropriations to employ additional personnel in field positions where they are needed. The Customs Bureau is urged to save on personnel costs "with little, if any, loss in either coverage or service," by combining its border-patrol with the duplicate facilities of the Immigration and Naturalization Service.

The committee is informed that both the immigration border patrol and the customs border patrol operate along the Canadian and Mexican borders, and yet there is no correlation or cooperation in their activity.

Labor Department and Related Agencies

On March 25 the second major appropriations bill, providing $1,685 million for the Department of Labor, Federal Security Agency, and "related independent offices" during the 1948 fiscal year, was approved by the House of Representatives. The amount approved is $365 million higher than the appropriation for 1947 plus pending Pay Act supplementals; $79 million less

than the amount that had been proposed by the President.

The acceptance by the House of a $389 million increase in appropriations for the Railroad Retirement Board, as proposed by the President, explains the increase in the total over 1947.

The biggest cut, under the Federal Security Agency, came from deferring $50,000,000 requested by the President to implement the Hospital Survey and Construction Act, approved in August of last year. This law authorized Federal contributions of $375,000,000 to a five-year $1,125,000,000 hospital building program. The Committee states that the program has been held back by the fact that no State has yet filed plans for review, "the current building material shortage," and "the lack of adequately trained personnel to staff the hospitals."

Again under the heading of Federal Security Agency the House approved a $6,252,200 (53 per cent) increase in grants to the States for vocational rehabilitation but rejected a proposed increase in the allowance for office overhead. Throughout the report the Committee was critical of requested large expansions of office staff, traveling expenses, and overhead, especially where these items have been vastly increased over the war period.

Disappointment was voiced that savings from the transfer of the Social Security Board to the Federal Security Agency under Government Reorganization Plan No. 2 have not materialized. Stating that "officials of the Agency have testified that they have been conducting 'surveys' and making 'studies' with view to revamping of the organization structure and elimination of duplication of activity," the Committee observed that: "To date, however, no economies have resulted and the committee is convinced that no economies will be forthcoming unless the Agency is given some assistance in the form of budget reduction."

On the other hand, in some special cases the Committee approved increases of appropriations over and above the amounts previously recommended by the President. For example, funds available for cancer research were enlarged by $6 million.

Bureau of Labor Statistics Cut

Within the Labor Department one of the big cuts was in the appropriation for the Bureau of Labor Statistics, and in view of the public concern that has been aroused by reports that widely used statistics, compiled by this agency for many years, would have to be cut out it is relevant to check the Appropriations Committee's reasoning.

The Committee stated that it "has carefully studied the various activities presently being carried on by the Bureau of Labor Statistics". After reviewing the purposes for which this agency was established, by Act of Congress in 1913, the Committee reached the conclusion:

> This Bureau has grown far beyond the original concept as expressed in the law establishing it. It has grown appropriation-wise from $784,000 in 1938 to $5,517,465 in 1947 including the pending Pay Act supplemental. The budget estimate for 1948 is $6,700,700. The committee is of the opinion that this Bureau is continuing to integrate into its request for regular appropriation its entire national defense appropriation. When it is known that this agency had only $1,312,300 in 1945 in its regular appropriation, some estimate as to its growth in view of its request for 1948 is apparent.
>
> The committee believes that the cost-of-living index should be maintained and that the other functions relating to industrial hazards, industrial relations, wage analyses, occupational outlook, productivity, and technological development, and employment and construction statistics should be very materially reduced. The committee has therefore reduced this appropriation 40 per cent below the 1947 amount.

An amendment from the floor of the House of Representatives when the Appropriations bill was under consideration reduced the appropriation $1,000,000 to $2,373,000. This is still three times the appropriation for 1938. The President's proposals would have lifted appropriations to more than eight times 1938.

The National Labor Relations Board and the Conciliation Service offer other examples where the Committee felt impelled to check expansion.

A Difficult Task

It would be possible to go on with many more examples of the Committee's approach, but space considerations forbid. The reports are extensive and give evidence of conscientious and diligent effort to effect savings in government costs without impairment of essential services. The Committee has been under a great handicap in that the time available for its work has been so limited and the area to be covered so wide and so complicated. That some mistakes will be made is inevitable, and where they can be proved they should be rectified; but where the increases in costs are so great the burden of proof is clearly on the departments and bureaus concerned.

The task which the House Appropriations Committee has faced is, in its own words, "laborious and, in a sense, a thankless one". Yet most people today firmly believe that the Government must put, and keep, its financial house in order. The "thankless" aspects of the task have been emphasized by the delegations, telegrams, and letters protesting this or that proposal for retrenchment. Many of these protests

have come from business men, among others, who have long urged a more economical scale of government, but who have apparently accepted at face value representations that vital activities of government were in danger of being wrecked by blind budget-slashing. The least that any critical-minded citizen can do is to consult the record of growth in the cost of peacetime functions, study the considered recommendations of the appropriations committees, and avoid the error of impulsiveness of which Congress has been accused.

The Congress is trying to do one of the most difficult tasks for which it is ever called upon, and it needs the active support of everyone interested in reducing our enormously expanded and costly government establishment.

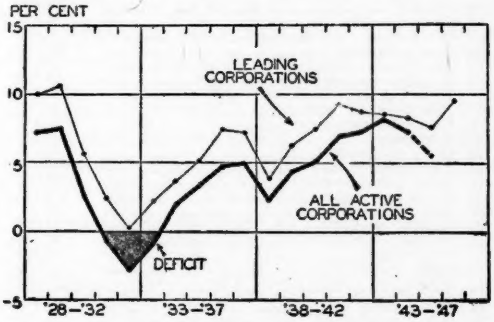
Corporate Earnings in 1946

Annual reports for 1946 that have now been issued by over 2,900 leading corporations confirm the earlier indications that the year will go down in the records as one of the best from the standpoint of earnings of a majority of American companies. Statements published during March are in line with evidence presented here a month ago of an exceptionally prosperous year for most of the manufacturing industries. Gains over 1945 were pronounced also in many other areas of American business, and especially in wholesaling and retailing and the service industries (amusements, hotels, restaurants, etc.) which benefitted generously from the high national income and liberal consumer spending.

Analysis of the sales figures where given shows that the high earnings were in most cases the result of the greatly expanded volume of business, rather than of abnormally wide profit margins, which for most groups were actually below the average of active prewar years. Moreover, in considering the gains in net income as compared with 1945, allowance should be made for the reduction in taxes, including the elimination of the excess profits tax, which in many cases more than offset a decline in operating earnings. The fact that 1945 statements of many companies included heavy chargeoffs of war plants and facilities, which did not recur in 1946, also contributed in boosting the comparative net earnings.

Need for discrimination in drawing conclusions about earnings is further emphasized by the fact that approximately one-fourth of the manufacturing corporations so far reporting — including some of the largest and most successful in the country — experienced lower earnings than in 1945. This reflected the cancellation of war contracts, strikes, reconversion difficulties, shortages of materials, increased costs, and unprofitable OPA ceilings, most of these factors applying chiefly to companies in the heavy industries and to operations during the early part of the year. Other outstanding exceptions to the upward trend were railroads and air transport companies. In the finance group (banking, fire and casualty insurance, investment, sales finance, and real estate) the trends were mixed, with the total showing a slight decrease.

On an overall basis, our tabulation of these reports shows combined net income after taxes of approximately $6.7 billion, compared with $5.2 billion in 1945, an increase of 28 per cent. Upon a combined capital and surplus of $70.8 billion — comprising about 45 per cent of the total net worth of all active corporations in the United States — the year's net income represented an average return of 9.5 per cent, compared with a net worth of $68.0 billion in 1945 and a return of 7.7 per cent.



Annual Rate of Return on Net Worth of All Active Corporations and of Leading Corporations

(Data for all corporations based upon Treasury Department "Statistics of Income". Average rates for leading corporations from National City Bank annual tabulations of published shareholder's reports.)

As indicated by the accompanying long-term chart, the upturn in 1946 followed four years of decline during the war period, and carried slightly above the rate in 1941, but remained below 1928 and 1929. The changes by major divisions of business were as follows, while a detailed summary by industrial groups is given on the next page.

Summary of Net Income After Taxes of Leading Corporations in 1945 and 1946
(In Millions of Dollars)

No. of Cos.	Division	Net Income 1945	Net Income 1946	% Change 1945-46	% Return 1945	% Return 1946
1,511	Manufacturing	$2,998	$4,091	+36	9.8	12.1
106	Mining, quarrying	96	123	+29	7.1	9.5
170	Trade	275	597	+—	10.9	22.8
233	Transportation	519	366	—29	3.9	2.6
238	Public utilities	641	775	+21	6.7	8.2
95	Service & constr.	98	160	+73	11.8	19.4
605	Finance	619	588	— 5	7.6	6.5
2,958	Total	$5,241	$6,701	+28	7.7	9.5

NET INCOME OF LEADING CORPORATIONS FOR THE YEARS 1945 AND 1946

Net Income is Shown as Reported—after Depreciation, Interest, Taxes and Other Charges and Reserves, but Before Dividends. Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No. of Cos.	Industrial Groups	Net Income After Taxes 1945	Net Income After Taxes 1946	Per Cent Change†	Net Worth, Jan. 1 1945	Net Worth, Jan. 1 1946	% Return 1945	% Return 1946
23	Baking	$29,098	$ 60,872	+ —	$285,961	$279,009	10.2	21.8
16	Dairy products	38,989	65,454	+ 67.9	325,412	346,581	12.0	18.9
17	Meat packing	34,825	70,461	+ —	644,119	655,384	5.4	10.8
26	Sugar	28,015	39,154	+ 39.8	402,772	410,157	7.0	9.5
59	Other food products	110,458	182,712	+ 65.4	962,676	1,008,904	11.5	18.1
16	Soft drinks	36,661	39,111	+ 6.7	188,530	200,934	19.4	19.5
34	Brewing	22,587	39,632	+ 75.5	155,595	169,064	14.5	23.4
12	Distilling	65,362	164,001	+ —	332,206	389,915	19.7	42.1
28	Tobacco products	76,634	100,690	+ 31.4	819,117	880,753	9.4	11.4
46	Cotton goods	28,760	102,896	+ —	369,802	379,316	7.8	27.1
18	Silk and rayon	14,280	42,419	+ —	150,504	173,414	9.5	24.5
7	Woolen goods	11,986	30,828	+ —	116,234	120,477	10.3	25.2
20	Hosiery, knitted goods	7,990	21,779	+ —	72,217	77,340	11.1	28.2
41	Other textile products	36,113	83,828	+ —	379,282	402,593	9.5	20.8
31	Clothing and apparel	14,909	35,430	+ —	152,360	152,205	9.8	23.3
9	Leather tanning	3,623	5,030	+ 38.8	45,274	46,417	8.0	10.8
21	Shoes, leather products	17,262	26,757	+ 55.0	209,690	210,057	8.2	12.7
27	Tires, rubber products	66,152	136,759	+ —	621,093	663,616	10.7	20.6
24	Lumber	20,165	43,764	+ —	294,864	310,603	6.8	14.1
14	Furniture, wood products	6,316	11,915	+ 88.6	97,716	110,815	6.5	10.8
70	Pulp and paper products	61,254	140,163	+ —	935,654	974,331	6.5	14.4
28	Printing and publishing	17,467	31,478	+ 80.2	168,258	175,400	10.4	17.9
59	Chemical products	216,701	321,830	+ 48.5	2,128,516	2,194,436	10.2	14.7
26	Drugs, soap, etc.	74,312	121,963	+ 64.1	478,339	515,879	15.5	23.6
17	Paint and varnish	20,675	36,682	+ 77.4	252,169	266,106	8.2	13.8
40	Petroleum products	596,662	760,592	+ 27.5	6,778,678	7,092,034	8.8	10.7
28	Cement	4,634	17,186	+ —	181,039	177,328	2.6	9.7
11	Glass products	33,513	52,136	+ 55.6	329,535	352,567	10.2	14.8
37	Other stone, clay products	29,047	61,819	+ —	424,439	460,321	6.8	13.4
51	Iron and steel	183,531	273,336	+ 48.9	3,619,786	3,653,092	5.1	7.5
12	Agricultural implements	54,671	45,520	— 16.7	766,805	797,079	7.1	5.7
64	Building, heating, plumbing equip.	42,359	62,051	+ 46.5	500,231	543,745	8.5	11.4
71	Electrical equipment, and radio	149,958	114,547	— 23.6	1,207,374	1,291,665	12.4	8.9
55	Hardware and tools	40,155	56,239	+ 40.1	388,320	402,647	10.3	14.0
39	Household equipment	16,927	32,618	+ 92.7	159,967	177,064	10.6	18.4
135	Machinery	91,240	106,237	+ 16.4	900,895	937,778	10.1	11.3
24	Office equipment	33,052	58,173	+ 76.0	292,591	307,314	11.3	18.9
26	Nonferrous metals	110,710	136,685	+ 23.5	1,921,677	1,937,374	5.8	7.1
72	Other metal products	58,760	61,902	+ 5.3	605,014	652,974	9.7	9.5
22	Autos and trucks	246,743	128,754	— 47.8	1,756,292	1,876,240	14.0	6.9
57	Auto equipment	51,940	38,041	— 26.8	396,582	425,436	13.1	8.9
23	Railway equipment	36,158	42,081	+ 16.4	440,450	450,695	8.2	9.3
26	Aircraft and parts	83,339	4,182	— 95.0	375,535	454,748	22.2	0.9
5	Shipbuilding	11,775	10,175	— 13.6	55,993	58,381	21.0	17.4
39	Misc. manufacturing	62,180	73,973	+ 19.0	478,236	512,596	13.0	14.4
1511	Total manufacturing	2,997,938	4,091,355	+ 36.5	32,167,799	33,674,784	9.3	12.1
28	Coal mining	23,858*	35,892*	+ 50.4	572,641	479,415	4.2	7.5
28	Metal mining	24,952*	27,087*	+ 8.6	396,261	408,278	6.3	6.6
44	Oil and gas	31,012*	36,504*	+ 17.7	273,672	289,089	11.3	12.6
11	Other mining, quarrying	15,774	23,652*	+ 49.9	112,156	115,757	14.1	20.4
106	Total mining, quarrying	95,596*	123,135*	+ 28.8	1,354,730	1,292,539	7.1	9.5
19	Chain stores—food	20,898	45,446	+ —	235,481	243,784	8.9	18.6
53	Chain stores—other	97,520	197,344	+ —	815,431	857,816	12.0	23.0
37	Department stores	55,020	111,465	+ —	489,822	536,792	11.2	20.8
6	Mail order	61,105	159,517	+ —	597,978	623,137	10.2	25.6
55	Misc. and wholesale	40,704	82,891	+ —	395,282	409,633	10.3	20.2
170	Total trade	275,247	596,663	+ —	2,533,989	2,671,162	10.9	22.3
133	Class I railroads	446,762	288,534	— 35.4	12,337,817	12,665,923	3.6	2.3
33	Traction and bus	23,772	35,692	+ 50.1	460,508	474,254	5.2	7.5
10	Shipping	10,471	24,014	+ —	151,257	156,595	6.9	15.3
12	Air transport	11,755	D-879	— —	83,702	101,505	14.0	......
45	Misc. transportation	26,189	18,412	— 29.7	393,699	407,218	6.7	4.5
233	Total transportation	518,949	365,773	— 29.5	13,426,983	13,805,495	3.9	2.6
188	Electric power, gas, etc. (a)	443,137	558,291	+ 26.0	6,530,466	6,300,358	6.8	8.9
50	Telephone and telegraph (a)	198,013	216,711	+ 9.4	3,035,387	3,125,985	6.5	6.9
238	Total public utilities	641,150	775,002	+ 20.9	9,565,853	9,426,343	6.7	8.2
15	Amusements	64,473	122,582	+ 90.1	511,570	546,481	12.6	22.4
39	Restaurant and hotel	9,958	13,784	+ 38.5	90,147	89,570	11.0	15.4
25	Other business services	14,176	17,250	+ 21.7	117,778	124,075	12.0	13.9
16	Construction	4,101	6,733	+ 64.2	65,436	67,272	6.3	10.0
95	Total service and construction	92,703	160,349	+ 73.0	784,931	827,398	11.8	19.4
241	Commercial banks (b)	363,562	375,692	+ 3.3	4,081,236	4,418,471	8.9	8.5
77	Fire and casualty insurance (b)	89,854	24,268	— 73.0	1,312,659	1,562,319	6.8	1.6
144	Investment companies (b)	128,172	149,407	+ 16.6	2,109,201	2,506,902	6.1	6.0
55	Sales finance companies	31,158	28,028	— 10.0	503,591	509,142	6.2	5.5
88	Real estate companies	6,432	11,070	+ 72.1	118,780	123,581	5.4	9.0
605	Total finance	619,178	588,460	— 5.0	8,125,467	9,120,415	7.6	6.5
2958	Grand Total	$5,240,761	$6,700,737	+ 27.9	$67,959,752	$70,818,136	7.7	9.5

a—Due to the large proportion of capital investment in the form of funded debt, rate of return on total property investment would be lower than that shown on net worth only. b—Figures represent in most cases operating earnings only, and do not include profits or losses on investments. D—deficit. † Increases or decreases of over 100% not computed. * Before depletion charges in some cases.

In the manufacturing industries, reports now available from 1,511 companies show an increase of 36 per cent in the total net income last year. Most of the 45 manufacturing subgroups show increases, and in many groups, particularly in the consumers' goods industries which had little reconversion problem and operated near capacity throughout the year, net income was more than doubled.

A number of other important groups, however, showed decreased earnings as a result of the adverse factors enumerated above. Outstanding examples were in agricultural implements, electrical equipment and radio, autos and trucks, auto parts and accessories, aircraft and parts, and shipbuilding. In many cases a sharp decline in operating earnings, or a substantial net operating deficit, was offset, and thus in a sense obscured, by carryback tax credits.

Profit Margins on Sales

Sales figures reported by 1,155 of the manufacturing companies show aggregate gross income from sales and other sources of approximately $53.4 billion, upon which the net income (after tax reserves and tax credits, and including income from investments as well as from sales and other operations) was $3.2 billion, representing an average net margin of 6.0 cents per dollar of sales.

While this is substantially higher than the average of 3.9 cents in 1945, it is less than in other years of active business such as 1936-37 and 1940-41. During the war, profit margins were depressed below the normal level by voluntary price reduction and renegotiation of government contracts, curtailment of civilian goods production, price ceilings, and the high wartime excess profits taxes. From the foregoing table showing the margins by major industry groups, with comparative figures from our previous annual tabulations, it will be seen that in only 8 out of 30 groups were the 1946 margins wider than the average of the four active prewar years given, while in the remaining 22 groups they were narrower.

Percentage of Net Income after Taxes to Sales of Leading Manufacturing Corporations in Years of High Business Activity 1936-37, 1940-41, and 1945-46

No. of Cos. 1946	Industrial Groups	1936	1937	1940	1941	1945	1946
18	Baking	6.6	5.6	5.2	4.6	3.3	6.5
15	Dairy products	3.5	2.7	3.2	2.9	2.1	3.2
17	Meat packing	1.3	0.7	1.3	1.2	0.9	1.7
21	Sugar	8.5	6.4	8.1	8.6	4.7	6.0
38	Other food prod.	6.8	5.4	7.5	7.0	3.2	5.1
47	Beverages	13.6	9.1	6.2	5.9	3.6	7.1
14	Tobacco products	9.6	8.7	8.9	7.0	4.1	4.4
37	Cotton goods	4.3	3.2	3.7	5.8	3.3	10.1
57	Other textile prod.	5.8	2.9	5.0	6.7	4.5	9.3
26	Leather & shoes	5.7	4.0	4.7	4.7	3.0	4.2
24	Rubber products	5.9	3.4	4.7	4.3	2.5	5.6
26	Lumb. furn., etc.	7.6	8.2	6.5	7.1	3.9	7.7
57	Pulp, paper prod.	4.9	7.1	7.4	8.2	4.3	8.6
44	Chemical products	12.5	15.0	9.6	9.1	7.4	8.9
20	Drugs, soaps, etc.	7.5	8.7	12.8	12.2	6.4	9.8
12	Paint & varnish	7.5	5.5	5.2	4.6	3.2	5.5
33	Petroleum prod.	9.6	11.4	7.8	10.1	7.0	9.4
56	Cement, glass, stone	12.4	9.9	8.8	7.4	4.5	8.5
45	Iron and steel	5.9	7.5	8.1	6.2	3.0	5.6
11	Agricul. impl.	13.2	11.0	8.9	8.2	3.6	4.5
47	Building equip.	7.4	8.3	7.6	5.8	3.6	6.2
50	Electrical equip.	11.5	12.1	10.4	6.9	2.9	4.0
97	Machinery	11.2	9.1	9.8	8.8	3.6	5.9
16	Nonferrous metals	12.9	14.1	14.1	12.3	6.4	10.2
134	Other metal prod.	10.6	9.2	8.4	7.1	3.6	6.1
20	Autos and trucks	12.5	9.5	8.2	6.6	4.5	3.6
47	Auto equipment	6.5	6.3	6.8	5.6	2.8	3.4
19	Railway equip.	7.1	10.4	8.6	6.6	3.9	6.0
24	Aircraft & parts	7.7	7.6	13.1	7.4	1.2	0.5
83	Other mfg.	9.0	7.9	7.2	9.8	5.9	7.8
1155	Total	7.6	7.4	7.5	6.5	3.9	6.0

Net income, after tax reserves and tax credits, includes income from investments and other sources as well as from sales. The percentage rates indicate general trends of profit margins, but are not strictly comparable over a period of years because of (1) variation in number of available corporate reports included in the different annual tabulations upon which this summary is based, and (2) certain changes in industrial classification during the period. The rates for the total in the years not given above were: 1933—0.9; 1934—3.1; 1935—5.6; 1938—4.0; 1939—6.5; 1942—4.3; 1943—3.6; 1944—3.3.

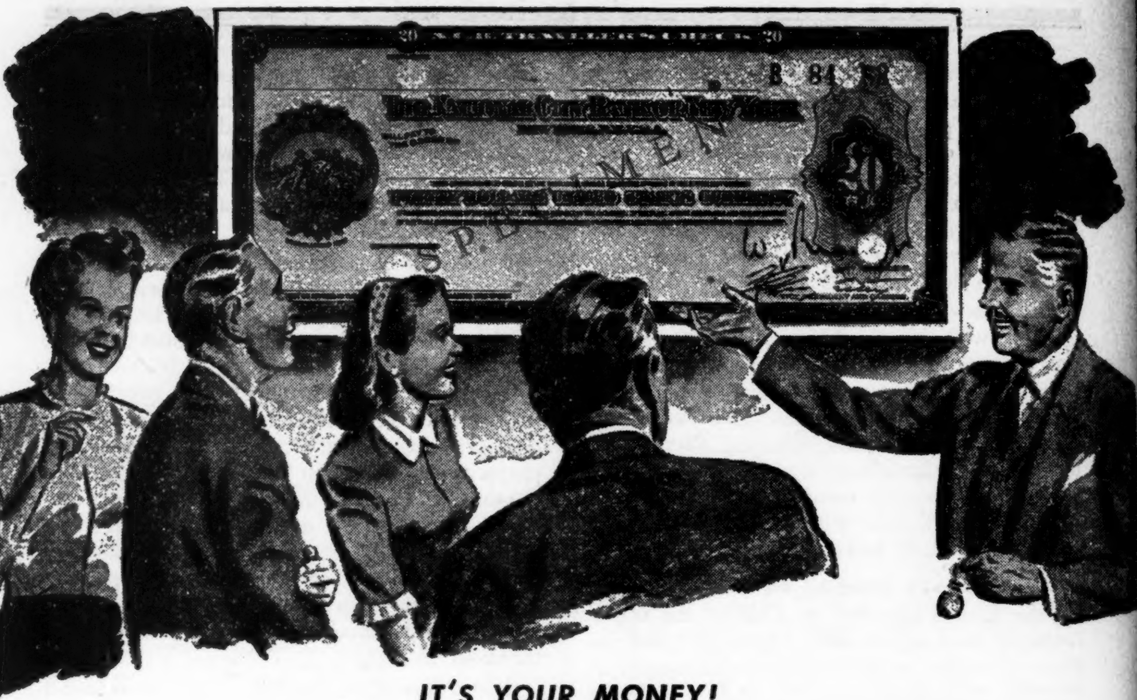
Sales figures given by 145 companies in retail and wholesale trade total $12.4 billion, an increase of 31 per cent over 1945 to an all-time high. Net income of $562 million represented an average margin of 4.5 cents per dollar of sales. This compares with a rate of 2.7 cents in 1945, and an average of 3.9 cents in the four years 1936-37 and 1940-41.

Percentage of Net Income after Taxes to Sales of Leading Trade Corporations

No. of Cos. 1946	Trade groups	1936	1937	1940	1941	1945	1946
17	Chains—food	1.5	0.9	1.4	1.4	1.0	1.6
51	Chains—other	6.9	6.2	5.0	4.7	3.6	6.0
30	Department stores	3.8	2.0	4.0	3.8	2.9	4.8
6	Mail order	5.9	5.1	4.7	3.8	3.4	5.6
41	Misc. & wholesale	2.1	2.7	2.7	2.9	2.2	3.8
145	Total	4.8	3.6	3.9	3.5	2.7	4.5

The rates for the total in the years not given above were: 1933—4.3; 1934—4.6; 1935—4.7; 1938—3.5; 1939—4.3; 1942—2.8; 1943—2.8; 1944—2.7. See also footnotes to preceding table

In contrast with the generally favorable earnings last year in manufacturing and trade, as well as mining, public utilities, and the service industries as shown in our summary, there was a severe slump in the earnings of most transportation companies. This occurred despite the highest level of national income ever reached in this country, and despite the benefits of tax reduction and relief through tax carrybacks applying to business generally.



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